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on behalf of the Private Equity Council

Subcommittee on Telecommunications & the Internet

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Introduction

Good morning. I am pleased to be here today to share some perspectives on the role of private equity in today's rapidly evolving media and telecommunications market. I appear in my capacity as a Managing Director at Thomas H. Lee Partners (THL), but my views are also offered on behalf of the Private Equity Council, the trade association representing many of the largest private equity firms doing business in the United States today.[1]

I have been with THL for two years. THL is a leading private equity firm based in Boston, Massachusetts. We focus on identifying and obtaining substantial ownership positions in large, growth-oriented companies where, in partnership with outstanding managers, we bring managerial and strategic expertise to accelerate the long-term growth of our portfolio companies. We have found, throughout our long history, that building good companies into great ones is the best way to create value for our investors, our portfolio company employees and all stakeholders. As one of the oldest and most successful private equity firms, THL has raised approximately $22 billion of equity capital and invested in more than 100 businesses with an aggregate purchase price of more than $125 billion. We seek to build companies of lasting value while generating superior returns for our investors and operating partners.

Prior to joining the firm, I held senior management positions at Viacom and Time Warner, where I served as CFO and as a senior executive with a close working relationships with, and a deep understanding of, both the editorial and business units. So I believe I come here with a unique perspective. I have a strong respect and sensitivity to the special and critical public interest obligations facing companies in the media and telecommunications sectors, and I also have seen from the inside the powerful ways that private equity investment can jump start companies. I can tell you without equivocation that private equity investment is entirely consistent with the public-interest values so central to our media and telecom regulatory regime. Let there be no doubt: private equity owners take very seriously all of the regulatory and legal obligations that come with having stake in a licensed entity.

What Is Private Equity?

Let me start with a brief description of private equity, something that is widely misunderstood. Private equity touches the lives of tens of millions of Americans every

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[1] PEC members are Apax Partners, Apollo Global Management LLC, Bain Capital Partners, The Blackstone Group, The Carlyle Group, Hellman & Friedman LLC, Kohlberg Kravis Roberts & Co., Madison Dearborn Partners, Permira, Providence Equity Partners, Silver Lake Partners, THL Partners and TPG Capital (formerly the Texas Pacific Group).

day. Consumers eat at Burger King, they shop at J Crew, they rent cars from Hertz, and they stay in Hilton Hotels. And when they do so, they're interacting with private equity, and hundreds of others just like them – some of which are household names; and some may be less well known, but vital to the economic makeup of this country.

Private equity firms acquire or invest in companies – either public or private – that are undervalued, underperforming, or need critical growth capital to compete in rapidly evolving business sectors. Over the last few decades, many experts, including leading CEOs and academics, have complained that the public markets create tremendous pressure on companies to generate quarter-to-quarter results, often at the expense of the long-term growth and health of these companies. For example, faced with a major R&D investment that could depress earnings and the company's stock price, management often is under great pressure to avoid making the investment so that they can "make" their quarterly numbers. Similarly, a public company CEO might not pursue a strategic acquisition that makes long-term sense, if the short-term effect would be to dilute the earnings that large institutional investors use as a quarterly guide in their course of buying and selling stocks.

In private equity ownership, the pressures from public shareholders looking for short-term gains are absent. As a result, private equity owners and the managers of their portfolio companies – who themselves have invested their own personal assets into the business – can focus on long-term performance and make the investments that enable companies to become more competitive. While not all private equity investments succeed, independent research consistently demonstrates that PE firms invest for the long term and seek to build stronger, more innovative, and more competitive companies. I believe Professor Lerner will address that in his testimony.

But the most important thing to understand about private equity is that the entire business model is predicated on investing in and strengthening acquired companies so they are worth more when they are sold to another buyer or to the public markets. Some critics charge that private equity "strips" a company bare. This defies common sense: who would want to buy a "stripped" company, much less pay a premium over the original purchase price? It would be as if someone bought a house, and then proceeded to tear out the kitchen, the bathrooms, the plumbing and the wiring, and *then* tried to sell the house for a profit. It would not work; and it does not work in private equity either.

Private Equity's Role in Telecom & Media

Over the years, private equity has played a key role in the development and competitive health of the telecom and media sectors. Many industries in these fields are capital intensive. More to the point, they also require patience and a commitment to building a long-term business, two ingredients often missing from companies that depend on public markets for capital. With PE's backing, early wireless operators like Aerial Communications, Omnipoint and VoiceStream created thousands of jobs, built out new networks, launched services and ultimately consolidated into T-Mobile to become a leading independent national wireless provider, bringing pro-consumer competition to the wireless market. Private equity investors provided the resources and expertise to recapitalize and revitalize a bankrupt MCI, the iconic symbol of telecom competition.

Private equity provided the funding allowing Bresnan Communications to provide cable TV and high-speed Internet access to 300,000 consumers in small and medium-sized markets in rural America. And private equity firms invested billions in competitive local exchange carriers (CLECs), bringing competition to the domestic telecommunications market and attendant benefits in service and prices for consumers.

The recent Alltel transaction – a deal in which THL was not involved – is yet another good example. By partnering with private equity, Alltel remained an independent wireless provider, rather than being acquired by one of the four largest strategic incumbents, thus helping to counterbalance recent consolidation among those incumbents.

Then there is the broadcast sector. As this Subcommittee knows quite well, because it is free, and because it is ubiquitous, broadcast media serves a vital role in our economy and our democratic society. But it's also true that the broadcast sector faces daunting competitive challenges from other digital platforms, many of which are subscription-based and can use the dual revenue stream that comes from advertising and subscriptions to capture more and more of a fragmented media market. Because of these structural challenges, some in the investor community have avoided the broadcast sector, assuming that its future is too cloudy.

But we at THL perceive things differently. That's why we have worked with various broadcast groups, such as Univision, to chart a strategic future in today's market. We believe there is a bright future in free, over-the-air television and radio. We've put our money where our mouth is. And in each of these instances, we have made contributions to some broader policy objectives.

For example, private equity is providing the funding necessary for Univision Communications, the largest Spanish-language broadcast group in the U.S., to make the transition to digital, which is an extraordinarily expensive undertaking. Univision estimates that its total cost of purchasing and installing new equipment by the analog television cutoff date will approach $100 million. Univision expects to spend nearly $20 million in 2008 alone. Of course, Univision not only has made significant expenditures for equipment, it also has donated a significant amount of air time to its multi-platform campaign to educate the Hispanic audience concerning the analog television cutoff, in partnership with the FCC and NTIA.

Moreover, private equity's acquisition of Univision has actually resulted in the divestiture of media interests, rather than increased concentration. Univision recently announced the sale of the entire Univision Music Group, as well as the sale of four radio stations in the Albuquerque market.

Our role in the Clear Channel transaction is another good example of the type of beneficial policy outcomes that are possible when private equity participates in these sectors. We at THL and Bain Capital enthusiastically support the new strategic future plotted by Clear Channel, given all of the competitive challenges facing terrestrial radio in today's market. We agree that Clear Channel's future would be best served by de-consolidating itself, with a renewed emphasis on the radio business in fewer markets with fewer stations. This streamlined approach, in our view, enables Clear Channel to more efficiently deploy and market its digital offerings in the face of competitive challenges from other digital platforms.

This streamlined approach had one other critical policy benefit – one that I know is important to the work of this Subcommittee: minority ownership. The structure of the transaction enables Clear Channel to seek out minority buyers for the radio properties being sold by the company. In fact, to facilitate secondary transactions with minority buyers, Clear Channel, in collaboration with the Minority Media & Telecommunications Council (MMTC) and other private equity funds, hosted a conference in January 2007 to bring all interested parties together. We support these efforts and, in the end, we hope that they will help to address the dearth of minority owners in today's broadcast marketplace. Private equity is pleased to play an ongoing role in that regard.

Finally, I understand one area of concern for this Subcommittee is whether private equity, by virtue of operating outside public markets, is too opaque or too removed for regulators to make informed judgments about matters involving private equity. This is an urban myth, I suspect arising out of the semantic fact that we call ourselves "private" equity funds and not something else. I would note that most major companies in which private equity invests also issue public debt. And having been a CFO at publicly-traded companies, I can tell you that the reports private equity firms file in connection with our public debt are every bit as extensive as any of the reports filed by a public company. So from a regulatory compliance perspective, there is no "lack of transparency" involving private equity and its stakes in any sector, including telecom and media.

Conclusion

Thank you for the opportunity to present our views on private equity and the media and telecom sectors. We look forward to working with the Subcommittee in the months ahead as it continues its exploration of these important issues.